

## Message Text

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ACTION STR-07

INFO OCT-01 EUR-12 EA-10 IO-13 ISO-00 STRE-00 AGRE-00

CEA-01 CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01

INR-10 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01

CTME-00 AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02

SOE-02 OMB-01 DOE-15 OIC-02 AF-10 ARA-10 NEA-10

/168 W

-----024343 062322Z /70

P 062133Z APR 78

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC PRIORITY 5895

INFO ALL EC CAPITALS PRIORITY

AMEMBASSY TOKYO PRIORITY

USMISSION GENEVA PRIORITY

C O N F I D E N T I A L BRUSSELS 06732

USEEC

DEPT PASS ELECTRONICALLY TO STR

GENEVA FOR USMTN

COPENHAGEN ALSO FOR AMBASSADOR WOLFF

E.O. 11652: GDS

TAGS: EMIN, ETRD, EEC, MTN

SUBJECT: DAVIGNON IDEAS ON NEXT PHASES OF STEEL

ARRANGEMENT

1. DURING DINNER APRIL 4 FOR CONGRESSMEN VANIK AND STEIGER, DAVIGNON EXPANDED FURTHER ON HIS CONCEPT FOR HANDLING STEEL PROBLEMS OVER NEXT FEW YEARS. DAVIGNON APPEARS TO BE THINKING ABOUT A TWO-PHASE PROGRAM. THE FIRST PHASE, WHICH COULD CARRY US INTO THE EARLY 1980'S, WOULD INVOLVE AN ARRANGEMENT AMONG THE MAJOR IMPORTING AND EXPORTING COUNTRIES. DURING THIS PERIOD, IMPORTING COUNTRIES WOULD AIM AT STABILIZING IMPORT PENETRATION

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AT SOME AGREED PERCENTAGE OF THEIR TOTAL CONSUMPTION, AND WOULD ADOPT TRADE OR OTHER POLICIES DESIGNED TO MAINTAIN A CERTAIN PROPORTIONATE SHARE OF THEIR IMPORT DEMAND FOR TRADITIONAL SUPPLIERS AS WELL AS A SMALLER, BUT POSSIBLY GROWING, AMOUNT FOR NEW ENTRANTS. HOWEVER, KEY POINT FOR DAVIGNON SEEMS TO BE UNDERSTANDING THAT MAIN SUPPLIERS (E.G., IN U.S. MARKET, EC AND JAPAN)

WOULD REFRAIN FROM PRACTICES WHICH WERE AIMED AT CAPTURING MORE OF THE MARKET AT THE EXPENSE OF THE OTHER. HOW THIS WOULD BE DONE, HE COULD NOT SAY, EXCEPT TO DENY THAT HE WAS PROPOSING A CARTEL-TYPE ARRANGEMENT FOR MARKET SHARING.

2. SECOND PHASE OF PROGRAM, TO BE EXECUTED AT A PREVIOUSLY AGREED DATE (AGAIN, IN EARLY 80'S) WOULD HAVE IMPORTING COUNTRIES RETAINING A COMMITMENT TO MAINTAIN TRADE POLICIES IN SUCH A WAY AS TO PROVIDE AN AGREED, BUT NOT GUARANTEED, TARGET IMPORT PENETRATION LEVEL. (VANIK KEPT MENTIONING A LEVEL FOR THE U.S. OVER THE NEXT SEVERAL YEARS AT BETWEEN 15 AND 20 PERCENT OF TOTAL U.S. CONSUMPTION OF STEEL). HOWEVER, IN THIS PHASE, THERE WOULD BE NO UNDERSTANDINGS OR ARRANGEMENT WHICH WOULD PROTECT SHARES OF IMPORT MARKET FOR ANY PARTICULAR FOREIGN SUPPLIER. ONLY DISCIPLINE ON IMPORTS IN THIS PHASE WOULD BE ANTI-DUMPING MEASURES, OR RESPECT FOR A BASE PRICE SYSTEM CALCULATED ON THE PRODUCTION COSTS OF THE MOST EFFICIENT PRODUCERS IN THE WORLD WHO WERE ABLE TO GUARANTEE A MINIMUM LEVEL OF PRODUCTION IN ORDER TO MAKE DELIVERIES AS EXPECTED. IN SOME CASES, HE SAID, THIS COULD WELL BE BRAZIL OR KOREA.

3. HE STRESSED THAT THE KEYS TO SUCCESS OF THE PROGRAM IN THE SECOND PHASE (INDEED TO THE IDEA AS A WHOLE) CONFIDENTIAL

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WOULD BE:

(A) CERTAINTY ABOUT THE DATE WHEN PHASE TWO WAS TO BE IMPLEMENTED. THUS, EXPORTING INDUSTRIES WHOSE MARKET SHARES MIGHT BE TEMPORARILY PROTECTED IN PHASE ONE WOULD BE ON NOTICE THAT, UNLESS THEY TOOK IMMEDIATE STEPS TO MODERNIZE THEIR PLANTS AND INCREASE PRODUCTIVITY, THEY WOULD LOSE THEIR MARKETS TO MORE COMPETITIVE SUPPLIERS (INCLUDING DOMESTIC SUPPLIERS IN NET IMPORTING COUNTRIES) IN PHASE TWO.

(B) THE JAPANESE MUST OPEN THEIR MARKET TO IMPORTS FROM COMPETITIVE LDC SUPPLIERS LIKE KOREA.

(C) THE ARRANGEMENT SHOULD REMAIN RELATIVELY INFORMAL AND NOT RPT NOT CODIFIED AS A FORMAL INTERNATIONAL AGREEMENT, SO AS TO AVOID LOCKING THE WORLD INTO A SYSTEM LIKE THE MFA WHICH MIGHT GO ON FOREVER.

4. DAVIGNON REMAINS OPEN ABOUT THE FORUM IN WHICH SUCH AN ARRANGEMENT SHOULD BE WORKED OUT. HE DISLIKES THE IDEA OF A WORLD STEEL CONFERENCE ON THE GROUNDS THAT IT

COULD DEGENERATE INTO ONE MORE NORTH/SOUTH CONFRONTATION FORUM. HE SEEMS TO PREFER A TWO-STAGE APPROACH IN WHICH THE BIG THREE WOULD SEE IF THEY COULD DEVELOP AN AGREED APPROACH, THEN INVITE SELECTED OTHER COUNTRIES, INCLUDING SOME LDC'S, TO START A SERIES OF AD HOC MEETINGS THAT COULD RESULT IN AN AGREED ARRANGEMENT.

5. DAVIGNON HAS PROMISED TO GIVE US A "TOPICS" PAPER BY MORNING OF APRIL 10, WHICH WE COULD CABLE DIRECTLY TO WOLFF, MCDONALD, AND HEIMLICH IN GENEVA. MORRIS

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## Message Attributes

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**Review Markings:**  
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20 Mar 2014  
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